

Message Text

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ACTION FRB-02

INFO OCT-01 EUR-25 EA-11 ADP-00 PA-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03

PRS-01 USIA-15 RSR-01 /171 W
----- 108998

R 311557Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3691

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 02 LONDON 09994

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 31

BEGIN SUMMARY: STERLING REMAINED VERY STEADY VIS-A-VIS

THE DOLLAR THIS WEEK AT AROUND \$2.4585, WITH MONDAY

(AUGUST 27) BEING A BANK HOLIDAY. STERLING WEAKENED

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SOMEWHAT IN RELATION TO OTHER CURRENCIES WITH THE TRADE-

WEIGHTED DEVALUATION AGAINST SMITHSONIAN RATES REACHING 17.18 PERCENT ON THURSDAY (AUGUST 30). THE PRICE OF GOLD ROSE THIS WEEK TO A HIGH OF \$107.25 ON WEDNESDAY (AUGUST 29) BUT FELL BACK TO \$105 ON THURSDAY (AUGUST 30). THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR), IN ITS AUGUST ECONOMIC REVIEW, IS RATHER OPTIMISTIC ABOUT THE ECONOMY, BUT IS VERY CONCERNED ABOUT INFLATION WHICH IT SEES RISING TO 10 PERCENT THIS WINTER. THE LEVEL OF MORTGAGE RATES CONTINUES TO BE OF CONCERN AND THESE RATES WILL PROBABLY BE RAISED FOR THE SECOND TIME THIS MONTH. CONSUMER CONFIDENCE CONTINUES TO FALL ACCORDING TO A RECENT SURVEY DONE FOR THE FINANCIAL TIMES (FT) BY THE BRITISH MARKET RESEARCH BUREAU. END SUMMARY

1. STERLING TRADED BETWEEN \$2.4650 (AUGUST 29) AND \$2.4575 (AUGUST 30) THIS WEEK, BUT WAS AT \$2.4585 AT THE BEGINNING OF THE WEEK. THE POUND WAS ONLY 5 POINTS DOWN ON THURSDAY FROM LAST THURSDAY'S CLOSE BUT THE TRADE-WEIGHTED DEVALUATION WIDENED TO 17.18 PERCENT COMPARED TO 16.74 PERCENT A WEEK AGO. INTEREST RATES ARE BEING KEPT AT HIGH LEVELS TO ENSURE AGAINST LARGE OUTFLOWS OF STERLING AND FURTHER DEPRECIATION OF THE RATE. GOLD ROSE TO A HIGH OF \$107.25 THIS WEEK, BUT CLOSED ON THURSDAY AT \$105, AN INCREASE OF \$6 OVER LAST THURSDAY'S CLOSE.

2. THE NIESR'S QUARTERLY ECONOMIC REVIEW SEES GDP AS RISING BY 6-1/2 PERCENT IN 1973 AND A LITTLE OVER 3 PERCENT IN 1974. IT INDICATES THAT THE ECONOMY IS SLOWING DOWN OF ITS OWN ACCORD AND IS THEREFORE IN LINE WITH GOVERNMENT FORECASTS. IT STILL ADHERES TO ITS MID-SUMMER POLICY RECOMMENDATION THAT THERE IS NO NEED EITHER TO STIMULATE OR TO RESTRAIN THE GROWTH OF DEMAND. THE NIESR DOES SEE RETAIL PRICES AS RISING AT AN ANNUAL RATE OF 10 PERCENT THIS WINTER AND A NEED TO HOLD DOWN WAGE INCREASES UNDER PHASE III TO CHECK THIS RATE OF INFLATION. THE NIESR SEES A CURRENT ACCOUNT DEFICIT OF 1,000 MILLION POUNDS FOR 1973, BUT ONLY A CURRENT ACCOUNT DEFICIT OF 350 MILLION POUNDS FOR 1974 (DETAILS FOLLOW BY AIRGRAM).

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3. BUILDING SOCIETY LEADERS ARE MEETING WITH THE GOVERNMENT TODAY (FRIDAY, AUGUST 31) TO TELL THEM THAT MORTGAGE RATES MAY HAVE TO BE INCREASED FOR THE SECOND TIME THIS MONTH. THE SOCIETIES WILL PROBABLY DECIDE TO RAISE THE MORTGAGE RATE TO 10.5 PERCENT OR POSSIBLY 11 PERCENT. MANY INVESTORS HAVE TAKEN FUNDS AWAY FROM BUILDING SOCIETIES BECAUSE THEY CAN GET A BETTER RETURN ON THEIR

MONEY ELSEWHERE. THE MOVE TO RAISE MORTGAGE RATES WILL
ENABLE HIGHER INTEREST TO DEPOSITORS IN AN ATTEMPT TO
CHECK THIS MOVEMENT.

4. CONSUMER CONFIDENCE HAS FALLEN BACK TO THE LOW POINT
REACHED IN FEBRUARY. THE PROSPECTS FOR BUYING CONSUMER
DURABLES ARE DOWN AND A MAJORITY SEE THE POSSIBILITY OF
HIGHER PRICES IN THE FUTURE. IT IS INTERESTING TO NOTE
THAT WOMEN ARE CONSIDERABLY LESS OPTIMISTIC ABOUT THE
FUTURE THAN MEN, POSSIBLY BECAUSE THEY DO MORE OF THE
DAILY SHOPPING AND SEE THE TRENDS IN PRICES FIRST-HAND.

5. THE FORWARD DISCOUNT NARROWED ON TUESDAY AFTER THE

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RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

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PRS-01 USIA-15 RSR-01 /171 W
----- 108962

R 311557Z AUG 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3692
INFO AMEMBASSY BERN
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AMEMBASSY COPENHAGEN
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BANK HOLIDAY, BUT WIDENED SOMEWHAT TOWARDS THE END OF THE WEEK, WHILE STILL BELOW LAST THURSDAY'S LEVEL.

	8/23	8/30	CHANGE
1 MONTH	1.00	0.98	DOWN 0.02
3 MONTHS	2.90	2.78	DOWN 0.12
6 MONTHS	4.90	4.75	DOWN 0.15

(ALL FIGURES IN CENTS)

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6. LOCAL AUTHORITY DEPOSIT RATES FELL UNTIL THURSDAY WHEN THEY MOVED UPWARD marginally.

	8/23	8/30	CHANGE
1 MONTH	14-7/8	13-7/8	DOWN 1
3 MONTHS	14-1/2	14	DOWN 1/2
6 MONTHS	13-7/16	14	UP 9/16

7. EURO-DOLLAR RATES MOVED IN A MIXED FASHION AND WERE DOWN SLIGHTLY AT ONE MONTH BUT UP SOMEWHAT AT THREE AND SIX MONTHS WHEN COMPARED TO LAST THURSDAY'S RATES.

	8/23	8/30	CHANGE
1 MONTH	11-7/8	11-1/2	DOWN 3/8
3 MONTHS	11-3/8	11-5/8	UP 1/4

	8/23	8/30	CHANGE
6 MONTHS	11-1/2	11-5/8	UP 1/8

8. THE MINIMUM LENDING RATE REMAINED AT 11-1/2 PERCENT ON FRIDAY, AUGUST 31.

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Disposition Approved on Date:
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Disposition History: n/a
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US Department of State
EO Systematic Review
30 JUN 2005

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Type: TE
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